

MASS. SAI.2: IN2/T77



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INDEPENDENT STATE AUDITOR'S
REPORT ON THE BOARD OF HIGHER EDUCATION'S
POLICIES AND PROCEDURES PERTAINING TO
TRUST FUNDS AT THE MASSACHUSETTS PUBLIC
COLLEGES AND COMMUNITY COLLEGES

OFFICIAL AUDIT REPORT

MAY - 2 2000

ISSUED BY THE
Department of the State Auditor

INTRODUCTION

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The Massachusetts Board of Higher Education is a policy setting agency. Its domain includes the five University of Massachusetts campuses, nine state colleges, and 15 community colleges. Our review focused on the policies, procedures, and controls concerning trust funds at seven of the state colleges and the 15 community colleges. The term trust funds, as used in public education, refers to nonappropriated funds held by the institutions. The purpose of trust funds are to complement state appropriations in order to ensure sufficient funding of an institution's programmatic needs. The statutory authority for trust funds is Chapter, 15A, Section 9(n) and 22(e), of the Massachusetts General Laws and various other statutes for public institutions of higher education. These statutes allow the Board of Higher Education and institutional boards of trustees to create and account for certain campus projects, programs, and activities. For fiscal years 1998 and 1999 state colleges and community colleges received departmental and miscellaneous revenue (excluding federal grants and reimbursements) of approximately \$368,163,000 and \$368,054,000 respectively. Expenditures from nonappropriated funds are for items such as salaries, administrative expenses, energy costs, space rentals, facility operational supplies, consultant services, equipment purchases, leases, and maintenance and repairs.

During the 1980s, considerable concern was raised about alleged misuse of trust funds at various Massachusetts campuses. In 1989, the Massachusetts Board of Regents of Higher Education, in an effort to address these concerns, formed a "Blue Ribbon Commission." The purpose of the commission was to study and issue recommendations concerning the management of trust funds throughout the state system of higher education.

The purpose of our audit was to review the policies, procedures, and updates that were initiated from the Commission's report.

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1. Trust Fund Guidelines Have Not Been Updated Since November 1992: Although the individual institutions have become more reliant on trust funds and trust fund policy has evolved, the Board of Higher Education had not revised its Trust Fund Guidelines since the issuance of the last revision in November 1992. Our review of these guidelines disclosed some instances where the Board of Higher Education's practices did not comply with its own guidelines. 8
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INTRODUCTION

Background

The Massachusetts Board of Higher Education is a policy setting agency. Its domain includes the five University of Massachusetts campuses, nine state colleges, and 15 community colleges. Our review focused on the policies, procedures, and controls concerning trust funds at seven of the state colleges and the 15 community colleges. The term Trust Funds, as used in public education, refers to nonappropriated funds held by the institutions. The trust fund's purpose is to complement state appropriations in order to ensure sufficient funding of an institution's programmatic needs. The statutory authority for trust funds is Chapter 15A, Section 9(n) and 22(e), of the Massachusetts General Laws and various other statutes for public institutions of higher education. These statutes allow the Board of Higher Education and institutional boards of trustees to create and account for certain campus projects, programs, and activities. For fiscal years 1998 and 1999 state colleges and community colleges received departmental and miscellaneous revenue (excluding federal grants and reimbursements) of approximately \$368,163,000 and \$368,054,000 respectively. Expenditures from nonappropriated funds are for items such as salaries, administrative expenses, energy costs, space rentals, facility operational supplies, consultant services, equipment purchases, leases, and maintenance and repairs.

During the 1980s considerable concern was raised about alleged misuse of trust funds at various Massachusetts campuses. In 1989, the Massachusetts Board of Regents of Higher Education,¹ in an effort to address these concerns, formed a "Blue Ribbon Commission." The purpose of the commission was to study and issue recommendations concerning the management of trust funds throughout the state system of higher education. The commission was composed of the Senior Vice President/Treasurer, John Hancock Insurance Company; President, Wellesley College; and Chairman, GenRad Inc. The commission contracted with an independent accountant to complete an in-depth study of the adequacies

¹ The governing body of the Massachusetts Higher Education System changed from the Board of Regents to the Higher Education Coordinating Council to the current Board of Higher Education.

and faults of the existing system. At the conclusion of the commission's review, *Standards for the Expenditure of Trust Funds* was issued to the Massachusetts Board of Regents on May 2, 1989. Included in the report was a series of standards concerning the management of higher education trust funds. The stated purpose of the standards for the expenditure of Trust Funds were:

1. To provide some guidance and suggestions on selected expenditures made in the interest of promoting the mission of the institution.
2. To outline recommended standards for the expenditures that have the appearance of providing personal benefits to college officials and friends, or of being lavish or extravagant in nature.

The report additionally stated that:

These standards should be considered minimum standards. Local Boards of Trustees must develop institutional guidelines and standards which may be more but not less restrictive.

The report went on to further state a number of important principles that underlie the standards:

1. Institutional autonomy and flexibility as well as local decision making are important and should be encouraged.
2. No set of general or detailed guidelines can be a substitute for personal ethics and sound judgment.
3. Local Boards of Trustees have the responsibility to issue clear guidelines for the expenditure of trust funds and to establish the mechanisms and structure to actively review these expenditures.
4. State colleges and universities are members of and participants in the larger communities they serve.
5. State institutions, like private institutions, must engage in activities that promote employee morale, generate philanthropic support, and enhance the well being of the institution.
6. Trust funds should not be spent in a manner that gives the impression of lavish or extravagance spending.

Using the report of the Blue Ribbon Commission as a standard, on May 9, 1989, the Board of Regents of Higher Education issued *Standards for the Expenditures of Trust Funds*. These standards have been revised and reissued on June 6, 1990 and November 2, 1992.

The Higher Education Trust Fund Guidelines, issued on November 2, 1992, were established to provide a basis for the public higher educational institutions to develop policies and procedures for the

management of trust funds. They outline the minimum standards in two areas (1) responsibility and reporting and (2) categories of expenditures. The highlights that are included in the guidelines are as follows:

Responsibility and Reporting:

- The institution's board of trustees is responsible for the specific trust fund guidelines, which should include policies and procedures concerning trust fund revenue sources, appropriate and inappropriate expenditures, bank accounts, spending approval levels, and required documentation.
- Responsibility for trust fund administration rests with the president/chancellor of the institution. Records shall be maintained in accordance with proper accounting procedures with adequate documentation.
- All trust fund activities shall be available for regular audit and inspection.
- Clear goals and objectives for trust funds should be established by the institution and, where feasible, an annual budget should be developed: reviewed by the president, and submitted to the board of trustees for approval. The budgets should include sufficient detail to support major expenditures.
- The president shall provide a detailed account of trust fund expenditures to the board of trustees on a quarterly basis and the Board of Higher Education on an annual basis.
- The level of detail of the report should satisfy the needs of the Board of Trustees and it should also include: (1) certification by the president that all records were maintained in accordance with proper accounting procedures, including documentation of receipts, disbursements, and bank accounts, and (2) relationship of the expenditures to the institutional mission should be clearly stated or evident.
- The quarterly report should be reviewed by an appropriate subcommittee of the board of trustees and approved by the full board. In addition, the board should report all violations of trust fund expenditure standards as well as the follow-up action taken to address each violation to the Board of Higher Education.
- Wherever these standards require Board of Trustee approval, approval may be given by the full board, a subcommittee, or a designated trustee. The approval process should be documented.
- Wherever these standards require prior approval, the approved annual budget satisfies the approval requirement as long as sufficient detail is included in the budget.
- The president or designee should have discretion over trust fund expenditures up to a ceiling specified by the Board of Trustees, except in the following circumstances that require approval regardless of the amount of the expenditures:
 1. Expenditures that personally benefit the president,

2. Expenditures for renovations, repairs, or decoration of the president's office or home or administrators' offices,
3. Expenditures for an individual's membership dues in any amount for employees other than the president and for amounts in excess of \$1,000 for the president,
4. Expenditures for attendance at charitable dinners or events,
5. Expenditures for trustee travel,
6. Expenditures for entertainment of guests in the president's home,
7. Expenditures for moving costs, and
8. Expenditures for purchase or lease of motor vehicles for use by the president or other administrators.

Categories of Expenditure

- Expenditures of a Personal Nature
 1. Whenever expenditure would personally benefit or appear to personally benefit an individual, that person is prohibited from approving the expenditure. In addition to any board approval, an institutional official at a higher organizational level must approve the expenditure in advance.
 2. In the case of the president, the Board of Trustees must provide prior approval of such expenditures.
- General Campus Projects
 1. Facilities renovations, repairs, or decorations should be funded through the institution's appropriation from the Commonwealth. When such expenditures for the president's home or office or administrators' offices are to be made from trust funds, they must have prior approval of the board of trustees, except in an emergency in which case the board should be informed as soon as possible. All such expenditures shall conform to the competitive-bidding policies of the Commonwealth and to its associated procurement procedures.
 2. Contractor and consultant fees paid from trust funds should conform to state law pertaining to such activities.
 3. Publications, including president's reports, newsletters, advertisements, magazines, invitations and others, should avoid the appearance of extravagance.
 4. An individual's membership fees for civic, academic, professional organizations must have prior approval by the Board of Trustees, except for such memberships of the president, so long as fees are not in excess of \$1000.

5. Outright contributions to charitable organizations are prohibited. However, where attendance at a charitable event will further the public purpose of the institution, expenditure may be permitted subject to prior approval by the Board of Trustees.
 6. Contributions to individuals or their associated committees seeking elected, public office are prohibited.
 7. Contributions to political action committees or equivalent organizations are prohibited.
- Travel and Substance Costs

Employee Travel

1. Ensure that costs for travel to and from institutional business, are necessary, allowable, and the least expensive practical mode of transportation.
2. Establish mileage rates and per diem costs that are reasonable and appropriate.
3. Require that all costs are documented and supported for institutional business.

Non-Employee Travel

1. Spouse and personal guest travel are not permitted.
 2. At the president's discretion, student travel may be allowed. The chairman of the Board of Trustees must approve trustee travel. In all cases, the activities and expenses must be clearly related to the mission of the institution.
- Personal and Student Loans
 1. Personal loans should not be granted to institutional staff or board members.
 2. In rare circumstances, it may be permissible to provide salary advances to employees. Such advances should be repaid promptly to the trust fund.
 3. Student loans from trust funds can only be made by the president and only in exceptional circumstances. The financial aid office should make the determination of need and the business office should be responsible for the collection of the loan.
 - Employee and Student Recognition and Activities
 1. Within moderate limits set by the Board of Trustees, certain expenditures of trust funds to enhance employees and student morale or to recognize achievement, longevity, performance, or retirement can be made.
 - Entertainment of Institutional Donors, Alumni, Friends, Guests and Visitors
 1. Such entertainment should be in moderation and in good taste.

2. It is appropriate for a college president to entertain guests in their house as part of official duties. Such expenditures must be approved by the Board of Trustees.
 3. Sports, theatre, and other entertainment tickets cannot be purchased with trust funds unless the event is being held on campus and the expenditure benefits the mission of the institution or directly supports its instructional programs.
- Miscellaneous
 1. Moving expenses are appropriate for the president and selected officials of the institution. The Board of Trustees may approve the use of trust funds for moving expense to attract individuals of high quality from other parts of the country. The expenses shall not exceed the regional, average cost of moving between two points. Competitive bids for moving expenses should be sought in all cases. Storage fees are not allowable.
 2. Purchase or lease of a motor vehicle for use by the president or other administrators must have prior approval of the Board of Trustees. A full-sized, mid-priced automobile for the president is allowable. If a more expensive vehicle is desired, the president must pay the difference from personal funds.
 3. Purchase of flowers, gifts, and cards in moderation from trust funds may be appropriate. Appropriate occasions include but are not limited to:
 - a) Death or illness of an employee, student, trustee, or person of special importance to the institution, or immediate family of said persons; and
 - b) Visits of special guests.
 4. Private clubs initiation fees and membership dues are not an allowable expense. Although membership fees for professional or academic organizations and civic groups are an allowable expense; any initiation fee or annual membership fee for the president in excess of \$1,000 must have the prior approval of the board of trustees. Membership fees in any amount for employees other than the president must have prior approval.

Our review of seven state colleges noted over 60 different trust fund categories and at the 15 community colleges, 46 various trust funds categories. The autonomy and uniqueness of each institution enables them to manage their trust funds as they deem necessary to the operation of the individual institution. Moreover, eight of the institutions, to better control trust funds, consolidated the number of individual trust funds. Two contrasting examples of institutions where the review determined that trust fund policies and procedures were adequate are Bunker Hill Community College (20 trust funds were consolidated to four) and Westfield State College (44 trust funds). Administrators at Bunker Hill Community College stated that the consolidation was performed to create better accounting control

whereas Westfield State College administrators stated that they were concerned that costing controls would be eliminated if the trust funds were consolidated.

Audit Objectives, Scope, and Methodology

We reviewed higher education trust fund policies and procedures for the year ended June 30, 1998.

Our review included the following four objectives at each institution:

- To review and evaluate internal accounting controls over the receipt and expenditure of trust funds.
- To review and evaluate policies and procedures pertaining to the expenditure of trust funds.
- To identify and list all trust funds, their intended purposes, the annual expenditures of each fund, and their June 30, 1998 balances.
- To review the cash management practices of trust funds.

To complete our audit objectives, we:

- Reviewed applicable laws and regulations to establish the criteria by which we could measure compliance.
- Prepared a questionnaire from the Higher Education Trust Fund Guidelines (November 2, 1992 edition), to use as a tool to ensure that those guidelines are being used as a minimum.
- Reviewed prior audit reports issued by the State Auditor's Office and other studies completed pertaining to trust funds.
- Interviewed appropriate employees from the Board of Higher Education and the individual institutions reviewed.

The result of our review indicated that each institution visited had adequate internal accounting control policies over the receipt and expenditure of trust funds and sufficient cash management practices. With regard to the policies and procedures pertaining to the expenditure of trust funds and the listing of all trust funds, their intended purposes, the annual expenditures of each fund, and their June 30, 1998 balances, we found that these policies and procedures were adequate except as detailed in the Audit Result section of this report.

AUDIT RESULTS

1. Trust Fund Guidelines Have Not Been Updated Since November 1992

The Board of Higher Education had not revised its Trust Fund Guidelines since the issuance of the last revision on November 2, 1992. The Higher Education Trust Fund Guidelines establish the minimum standards for the receipt, control, expenditure, and reporting of nonappropriated funds held by the public institutions of higher education. Although institutions have become more reliant on trust funds for operations, the guidelines have not been updated or revised. Our review disclosed instances where the Board of Higher Education's practices did not comply with its own guidelines.

Within the guidelines, it is stated that trust funds are not to be expended on facility renovations and repairs. Specifically it states, "Facilities renovations, repairs, or decorations should be funded through the institution's appropriation from the Commonwealth." In budget forms required to be submitted to the Board of Higher Education by the individual institutions there is a line item requiring the institutions to budget 4% of trust fund expenditures for repairs and renovations.

In addition, the guidelines require reports containing detailed accounting of trust fund expenditures be submitted to the Board of Higher Education from the institutions on an annual basis. An interview with a Board of Higher Education official disclosed that the board is not requiring these reports to be submitted due to a new requirement for annual independent audit reports.

Another instance of the Board changing its policies without updating the guidelines is its reporting requirements, is in regard to the guidelines that state "The president (of each institution) shall provide a detailed accounting of trust fund expenditures ... to the Board of Higher Education on an annual basis." However, an official at the Board of Higher Education stated that these reports are not currently required, because a copy of the annual Independent Public Audit report replaces the stated reporting requirement. When established guidelines are not followed by the issuing agency, the credibility of the remaining guidelines may also be questioned.

As requirements evolve with time and needs, it is essential those guidelines be reviewed and updated to reflect the requirements set forth by the issuing board. The Board of Higher Education's Trust Fund Guidelines have not been revised since November 1992. As appropriated funds lessen as related to fees collected from the students (trust fund revenues), the institutions are required to place more reliance on the trust funds to operate the schools. The Board of Higher Education guidelines must reflect the requirements of current policy.

Higher Education officials indicated that (1) they are in agreement that the Trust Fund Guidelines need to be updated and reissued; (2) monitoring should be completed to ensure that the institutions have developed policies from the issued guidelines; and (3) monitoring be completed to ensure that the individual trust fund agreements are current and complete.

Recommendation: The Board of Higher Education should review the guidelines, make the appropriate changes, and reissue the guidelines to the institutions. Specifically, areas that need to be updated are allowable expenditures, reporting requirements, and additional audits.

2. Lack of Oversight by the Board of Higher Education Has Resulted in Four Institutions Maintaining Incomplete and Inadequately Documented Trust Fund Policies and Procedures

Our review found that the Board of Higher Education has not effectively monitored the state colleges and community colleges to ensure that each institution has developed policies and procedures pertaining to the management of trust funds. Of the 22 institutions we reviewed, we determined that 18 of the institutions have developed adequate trust fund policies that were approved by their respective boards of trustees. The other four institutions did not maintain documented trust fund policies and procedures that are in adherence with the Board of Higher Education Trust Fund Guidelines. The trust fund guidelines state that "The standards are considered to be minimum standards. Local Board of Trustees must develop institutional guidelines and standards which may be more but not less restrictive."

Specifically, the Massachusetts College of Liberal Arts, Middlesex Community College, and Roxbury Community College did not have documented trust fund policies and procedures. Additionally, at Framingham State College, the Board of Trustees issued trust fund policies and procedures, but not all

Higher Education Trust Fund Guidelines were addressed. At each of these four schools we were provided accounting internal control manuals that have policies and procedures for the control of receipts and disbursements of funds, including trust funds. In addition, each school maintained a copy of the 1992 Higher Education Trust Fund Guidelines. We also noted that five community colleges (Berkshire, Greenfield, Holyoke, Mass Bay, and Springfield Tech) and one college (Massachusetts College of Art) were utilizing the 1989 or 1990 Higher Education Trust Fund Guidelines as their guidelines.

Although the accounting internal controls appeared to be sufficient, their purpose is different than the trust fund policies and procedures. The accounting internal controls ensure that revenues and expenditures are accounted for properly. The trust fund policies and procedures establish how revenues can be received and for what purpose they may be used. In addition, they dictate the type of expenditures that are allowable, the manner expended, and the responsibility for the propriety of each expenditure.

At Framingham State College, the noncompliance of the institution's trust fund policy compared to the issued Board of Higher Education Guidelines include:

- No policy requiring reporting of violations of trust fund expenditure standards and corrective action plan to the Board of Higher Education.
- The Board of Trustees did not set an expenditures ceiling.
- No policy existed specifying that the President's newsletter, advertisements, or magazines avoid the appearance of extravagance.
- No policy stating that membership fees for civic, academic, and professional organizations have prior approval by the Board of Trustees.

The guidelines issued by the Board of Higher Education were meant to be guidelines for the individual institutions to use as minimums in establishing their own policies and procedures. Within the document, produced by the Blue Ribbon Commission and issued by the Board of Higher Education, are underlying principles used in developing the guidelines. Two of the principles state:

- Institutional autonomy and flexibility as well as local decision making are important and should be encouraged.

- Local Boards of Trustees have the responsibility to issue clear guidelines for the expenditure of trust funds and to establish the mechanisms and structures to actively review these expenditures.

These principles clearly state that the intention of the guidelines were to be minimum standards and in order for the institutions to maintain their autonomy, flexibility, and accountability for their expenditures, it was necessary for each Board of Trustees to issue trust fund policies and procedures in relation to the individual school's needs.

When the Board of Higher Education issues guidelines that require the individual institutions to develop more detailed policies and procedures from those guidelines, it is imperative that the board monitor the institutions to ensure that the policies and procedures were developed. In not monitoring the institutions, the Board of Higher Education cannot be certain that the individual campuses have adequate controls over trust funds.

Recommendation: The Board of Higher Education should monitor the state colleges and community colleges to ensure that each institution has developed and received approval by their Board of Trustees for trust fund policies and procedures that are in compliance with the Higher Education Trust Fund Guidelines. In addition, the Board of Higher Education should monitor the individual schools to ensure that the policies and procedures are adhered to and updated when necessary.

3. Trust Fund Agreements Could Not be Located at Two Institutions

Certain agreements for individual trust funds at Worcester State College and Quinsigamond Community College could not be located. Trust fund reports we reviewed revealed that Worcester State College listed 17 active trust funds of which eight lacked documentation and Quinsigamond Community College listed 12 of which three lacked documentation.

Each trust fund created at an individual institution is for a unique purpose with specified sources of revenue and restricted uses of the funds. Sound accounting practices advocate that each specific trust fund have a documented agreement. At a minimum, the trust fund agreement should include: the name

of the trust fund, intended purpose of the trust fund, source of funds, allowable expenditures of the funds, any restrictions on the funds, and the custodian of the trust fund.

As the institutions consolidate their trust funds for better control or revise trust funds to suit current school needs, it is also necessary to update the trust fund agreements so that the reported trust funds match documented agreements. If this step is not completed, the trust fund's funding, use, and management are not adequately documented.

At Worcester State College and Quinsigamond Community College, staff could not locate the trust fund agreements caused by changes in personnel in the Business Office. This reason exemplifies the importance of documenting the trust fund agreements so that when personnel changes, new staffing can review the agreements to ensure that the specific trust funds are being used properly.

Recommendation: Each individual institution must develop and maintain trust fund agreements that coincide with the trust funds reported on its financial statements. Each agreement should include, at a minimum, the name of the fund, the purpose of the trust fund, the source of funds, the allowable use of the funds, and the custodian of the trust fund.

SCHEDULE A

Listing of Institutions Reviewed

State Colleges

Bridgewater State College
Framingham State College
Massachusetts College of Art
Massachusetts College of Liberal Arts
Salem State College
Westfield State College
Worcester State College

Community Colleges

Berkshire Community College
Bristol Community College
Bunker Hill Community College
Cape Cod Community College
Greenfield Community College
Holyoke Community College
Massachusetts Bay Community College
Massasoit Community College
Middlesex Community College
Mt. Wachusett Community College
North Shore Community College
Northern Essex Community College
Quinsigamond Community College
Roxbury Community College
Springfield Technical Community College

